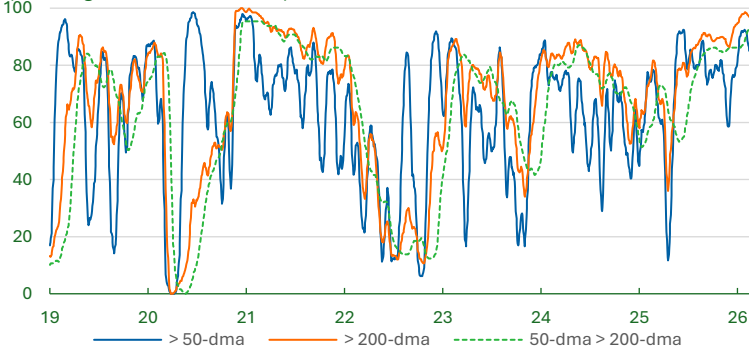


Institutions matter

Global Market Performance Indicator

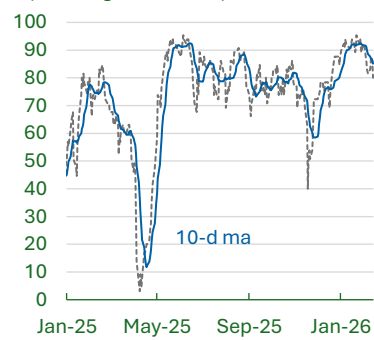
(% of 65 global indices, 10-d ma)



Source: Investing.com, Watt Strategic Economic Advisors

GMPI

(% of 65 global indices)



Source: Investing.com, Watt Strategic

Overview

WSEA's Global Market Performance Indicator continues to point to a bullish backdrop, but sentiment is not as bullish as a few weeks ago, as a few markets have fallen back below their 50-dma. This is not a surprise. Markets were very bullishly positioned a few week ago, and such extremes tend to fade.

As I said in the last report: *"At such extremes, one starts to pay close attention to factors that could cause a reversal. That is, at extremes of optimism or pessimism, it might be wise to consider moves in the other direction. One might say, "be fearful when others are greedy, and greedy when others are fearful.""* Hat tip: Warren Buffet.

That said, the vast majority — 80% — of global markets do remain above their 50-dma and almost all still above their 200-dma. As well, some are doing extremely well right now.

Perusing the global charts there are a few interesting developments. On that markets that are around, or have fallen below their 50-dma, we highlight the S&P 500, the NASDAQ, the Russell 2000. Of note the NASDAQ has fallen below its 50-dma and is closing in on its 200-dma as sentiment. Some disruptions to the AI narrative is a key factor in the decline of the NASDAQ.

What is interesting here is that Philadelphia semiconductor index (SOX) remains near its recent highs. SOX is focused on the "design, distribution, manufacture, and sale of semiconductors." Hence, it is more a hardware play in the tech industry, focused on the backbone of the sector. The NASDAQ is a broader market reflecting more general tech industry trends. Calls to boost AI investment and data centers support SOX, but uncertainty over the use of AI, its penetration into the broader economy, and general economic trends will tend to buffet NASDAQ. Hence, we are seeing a bit of a divergence in their narratives.

Markets in Hong Kong, Ireland, Czechia, Argentina, Chile, and India also are testing or below their 50-dma.

Some markets are still very strong

However, what is more interesting, is that even though there is a rising number of markets falling below their 50-dma, what really stands out is that there are still some markets in strong upswings. For example, the UK FTSE 100, South Korea's KOSPI, Japan's Nikkei, Thailand's SET, Sweden's OMX, Norway's OSEAX, Egypt's EGX30, Turkey's BIST, Brazil's Bovespa, Mexico's INMEX, and Taiwan's Taiex. In fact, there are other markets that are also doing very well, but these are the ones that have been, and remain, on a tear.

Interestingly, South Korea's KOSPI has some notable similarities to the Philadelphia semiconductor index. Stock indices with a focus on supplying the hardware upon which AI runs are doing well.

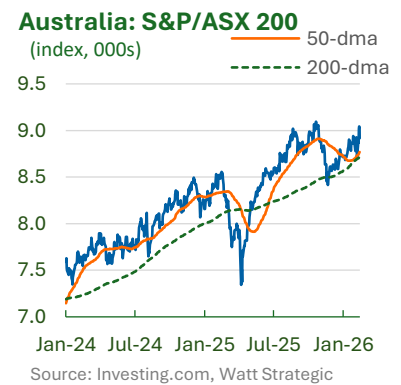
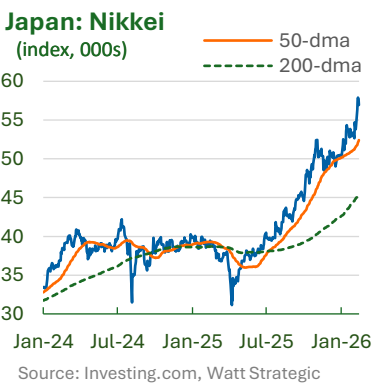
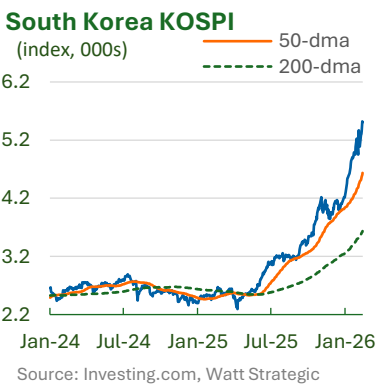
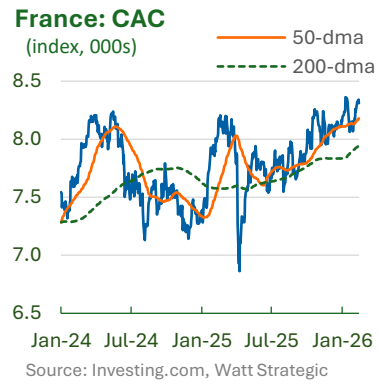
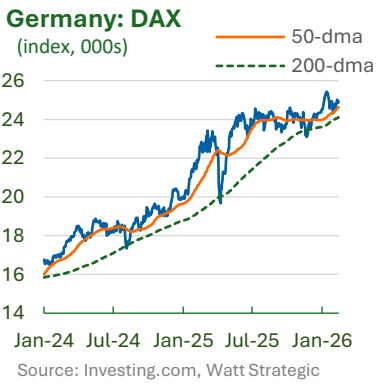
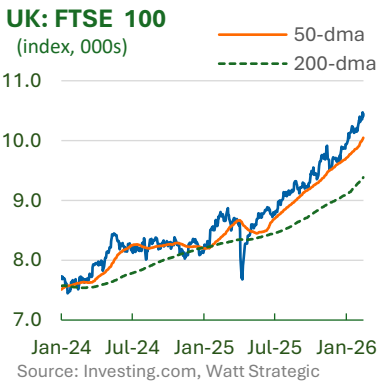
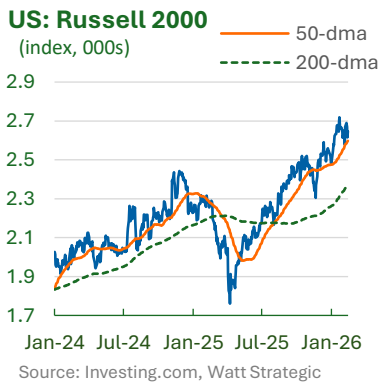
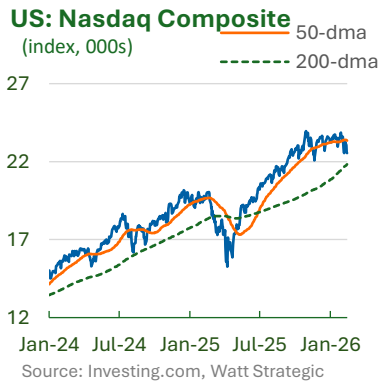
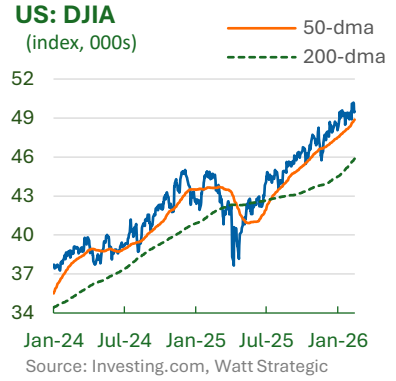
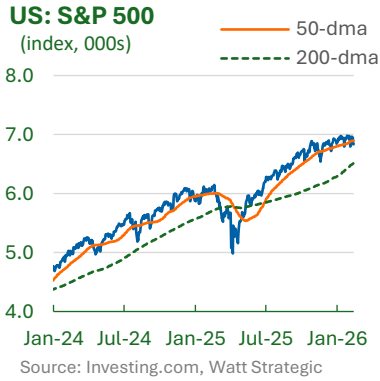
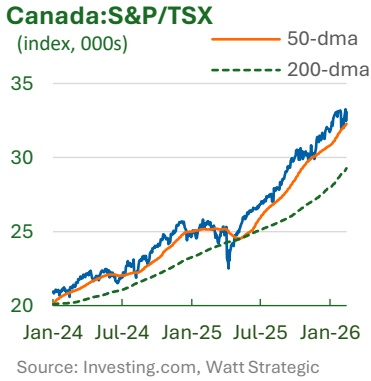
Politics in play: By this I do not mean attempts by a central government, or a political leader, to flex their power per se regarding markets. Instead, political developments have helped boost markets in Japan and Thailand. In particular, Japan's Nikkei has been benefiting from perceptions of a shift toward more business-friendly policy following the recent election that saw Sanae Takaichi become Prime Minister. In Thailand, the SET surged given the surprisingly strong victory of the Bhumjaithai Party in the 8 February election. The prospect of a stable government helped boost foreign investor interest.

Drawing a through line: Japan and Thailand highlight something important, but that can be easily overlooked. Institutions matter. Governance matters. Macroeconomic factors might create bullish or bearish market conditions, but solid institutional foundations matter. Rule of law matters. Markets that can display these attributes will be ones that draw investment flows.

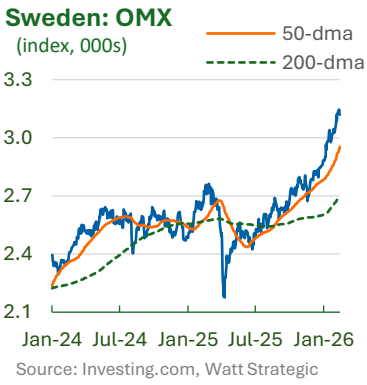
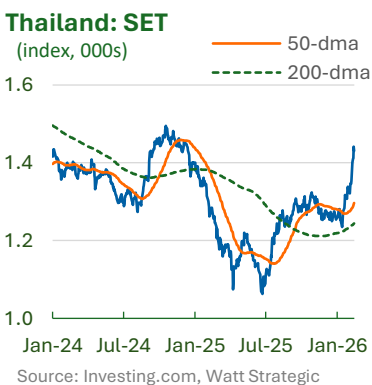
When we look at the US now, the current administration is eroding those foundations. True, those foundations might be deep and solid, they are not permanent. They do still need reinforcement and regulatory oversight. However, if a critical point is hit and the foundations begin to give way, look out. We are not there yet, but investors around the world have begun to consider the risk that the current US Administration might just do enough to shift the ground beneath the US financial system, potentially setting it on the path to its destruction. This is not to say that regulatory reforms aren't important, but they must be done with finesse. To use the trope from *The Big Short*, it's like Jenga.

Hence, we hear talk about a "sell US" narrative. I don't think we are there yet, and there is always hope that US policymakers will do the right thing — though maybe not until the last minute. We all love the cliff-hanger. However, sometimes even if the hero seems to save the day, it might have come just too late.

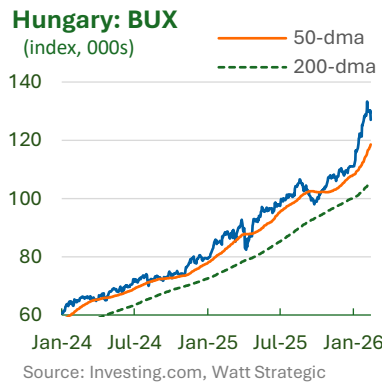
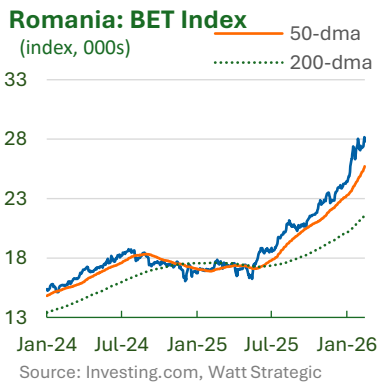
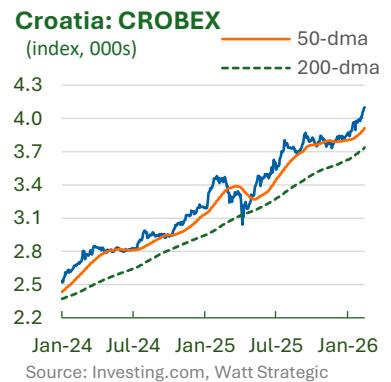
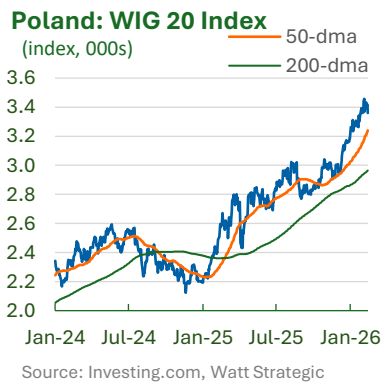
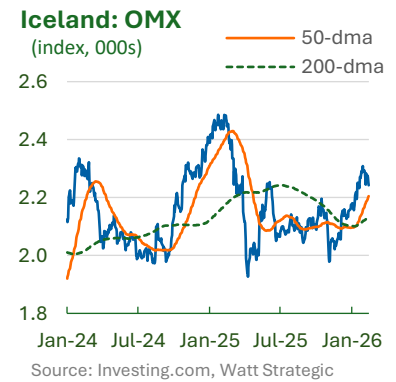
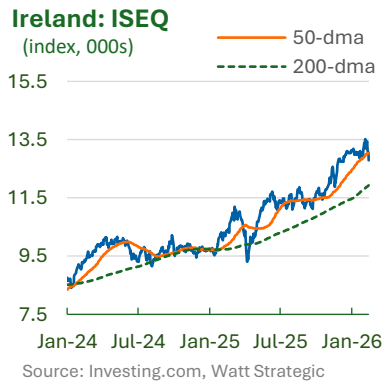
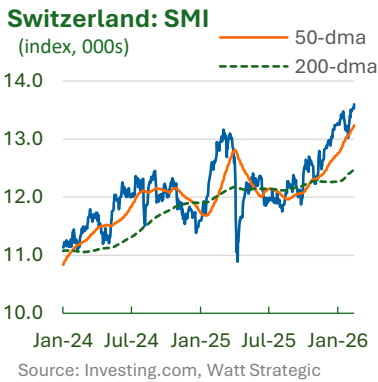
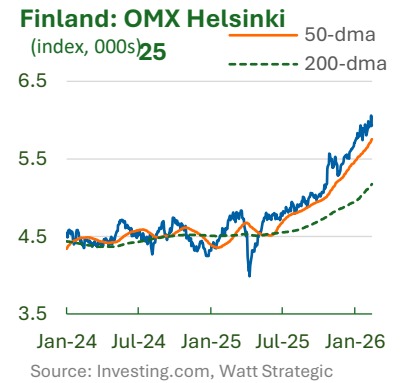
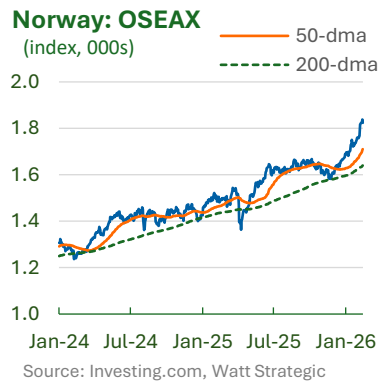
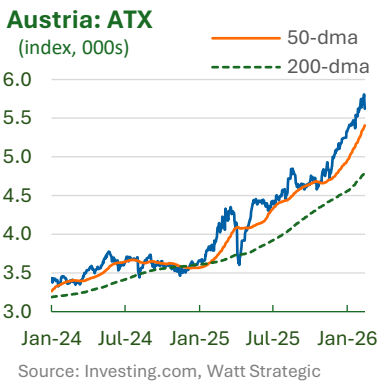
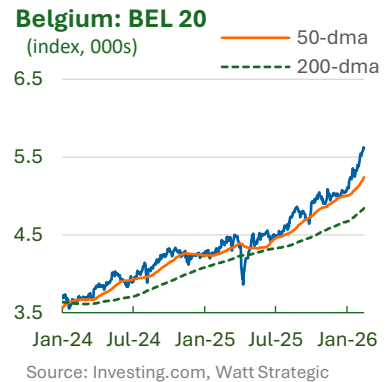
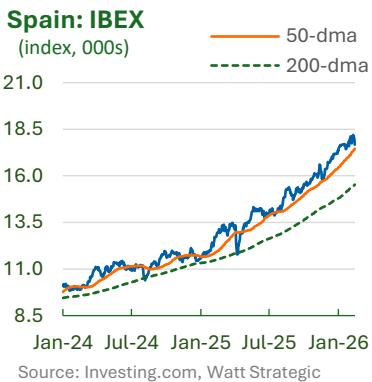
Key markets



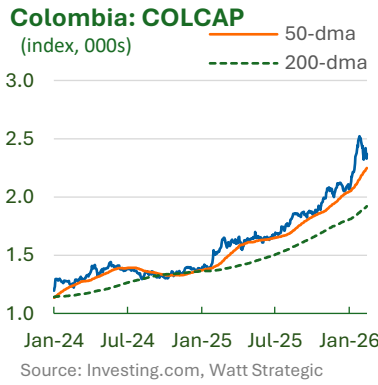
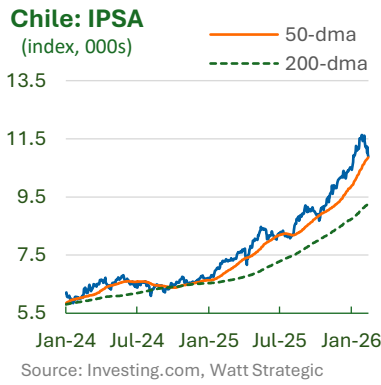
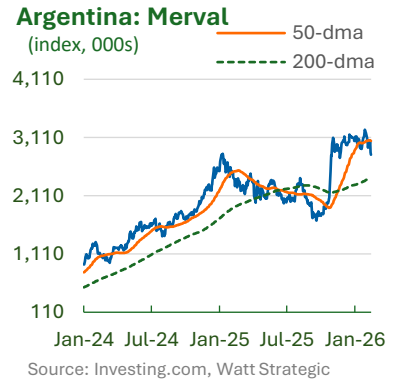
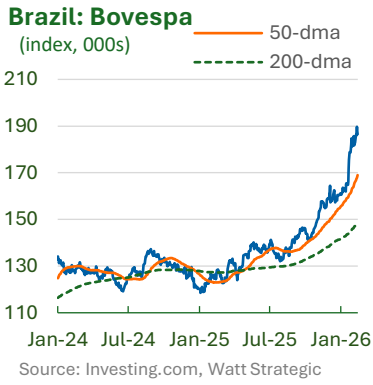
Markets in focus



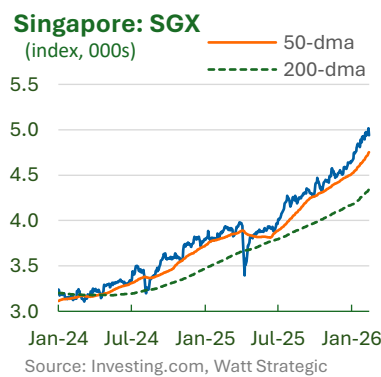
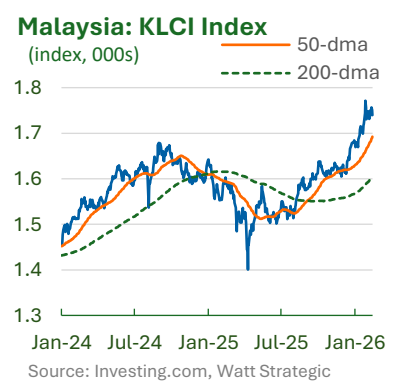
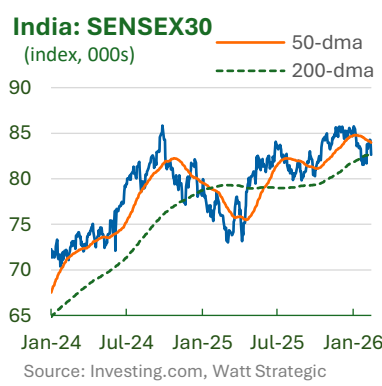
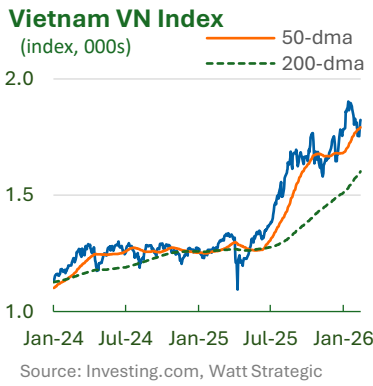
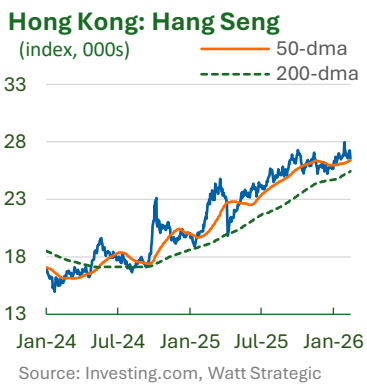
More European markets



Latin American markets



Asia, Africa, Middle East



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